Supreme Court, U.S.
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No. 85-1060.

In the
Supreme Court of the United States.

OCTOBER TERM, 1985.

RAYTHEON COMPANY,
PETITIONER,

v.

CVD INCORPORATED, ET AL.,
RESPONDENTS.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT.

Brief of Respondents in Opposition.

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Questions Presented.

1. Where a company has a monopoly on the production of a product, and knows that it has no relevant trade secrets, but uses the threat of ruinous trade secret litigation to exact from a potential new competitor a licensing agreement requiring the payment of burdensome royalties for a license to use nonexistent trade secrets, may the licensing agreement be found to be a contract which unreasonably restrains trade, in violation of Section 1 of the Sherman Act?

2. In the same circumstances, may the imposition of the licensing agreement be found to be an attempt to monopolize, in violation of Section 2 of the Sherman Act?

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Opinion Below.

The opinion of the court of appeals was issued on July 30, 1985, and is reported as *CVD, Incorporated* v. *Raytheon Company*, 769 F.2d 842 (1st Cir. 1985). The opinion is reproduced in an appendix to the petition (App. 1a-30a). The final sentence of the opinion was deleted, and new provisions with respect

to costs and attorney's fees were added, by an order issued on September 30, 1985 (App. 31a).

Jurisdiction.

A judgment of the court of appeals, affirming the judgment of the district court, was entered on July 30, 1985 (App. 35a). The petitioner and the respondents both filed timely petitions for rehearing. The petitioner's petition for rehearing was denied. The respondents' petition for rehearing was granted (App. 40a), and an amended judgment was entered on September 23, 1985 (App. 36a). The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

Statement of the Case.

A. *Proceedings in the U.S. District Court.*

This action was commenced on August 28, 1981, by the filing of a complaint (P 0001)[1] in the United States District Court for the District of Massachusetts. The plaintiffs in the district court were the respondents CVD Incorporated ("CVD"), Robert N. Donadio ("Donadio") and Joseph F. Connolly ("Connolly"). (CVD is a corporation which has no parent company or subsidiaries or affiliates except two wholly owned

[1] References to the record appendix in the Court of Appeals are made by the notations "Tr." (transcripts of proceedings at trial), "E" (volumes of exhibits) and "P" (volume of pleadings), with appropriate page numbers. References to pages of the petition are made by the notation "Pet.". References to pages of the appendices to the petition are made by the notation "App.".

subsidiaries.) The defendant in the district court was the petitioner Raytheon Company ("Raytheon"), which is a Delaware corporation (Tr. 0005).

The respondents sought relief under the provisions of Sections 1 and 2 of the Sherman Act, 15 U.S.C. 1, 2, in connection with a licensing agreement (E 0256) which had been signed by the respondents and Raytheon on February 15, 1980.

The licensing agreement purported to grant to CVD a right to use unspecified trade secrets of Raytheon in connection with the production of zinc selenide ("ZnSe") and zinc sulfide ("ZnS") materials by the process of chemical vapor deposition ("cvd"), and required CVD to pay substantial royalties to Raytheon on all of its sales of those materials (15 percent of its sales of ZnSe and 8 percent of its sales of ZnS) for a period of ten years (E 0257, 0259).

In the district court Raytheon asserted a counterclaim for royalties claimed to be owed to it under the licensing agreement (P 0054) and for alleged misappropriation of trade secrets after termination of the licensing agreement (P 0055, 0057).

The case was tried in the district court from March 5, 1984, to April 12, 1984, before Judge Skinner and a jury (Tr. 0001-3262).

At trial there was evidence, which is summarized in the statement of facts below and is described in detail in the opinion of the court of appeals (App. 3a-5a, 13a-18a, 20a), that Raytheon was a very large company, with approximately 50,000 employees; that prior to the organization of CVD, Raytheon had a monopoly with respect to production of ZnSe and ZnS by cvd processes; that there were no practicable substitutes for these materials; that CVD had been organized by Donadio and Connolly, who had been employees of Raytheon, to engage in the production and sale of such materials; that Raytheon had no trade secrets relating to such materials; that Raytheon management personnel knew it had no trade secrets, but as-

serted threats of trade secret litigation against the respondents in order to compel them to enter into the licensing agreement; that the threatened litigation would have been fatal to the existence of CVD; and that CVD could not pay the royalties required by the licensing agreement and still continue in business as a competitor of Raytheon.

On April 12, 1984, the jury returned its verdict (Tr. 3403), finding in response to special interrogatories:

1. That in late 1979 and early 1980 Raytheon had no trade secrets with respect to production of ZnSe and ZnS by chemical vapor deposition (P 0140).

2. That in the fall of 1979 Raytheon had asserted the claims of trade secrets and exacted the licensing agreement from CVD in bad faith, knowing that it had no such trade secrets (P 0140), and that CVD had proved this by clear and convincing evidence (P 0140).

3. That in late 1979 and early 1980 Raytheon had "market power" with respect to both ZnS and ZnSe (P 0142-0143).

4. That the exaction of the licensing agreement was an attempt by Raytheon to restrain competition in production of ZnS and ZnSe and an attempt by Raytheon to monopolize the production of ZnS and ZnSe (P 0143).

5. That CVD had incurred damages of $1,060 (P 0143).

(In the petition Raytheon did not set forth or describe these specific findings by the jury, noting only that the jury had awarded damages of $1,060 (Pet. 2, 9) and had determined that Raytheon had no secrets (Pet. 20) and had acted in "bad faith" (Pet. 22).)

On May 22, 1984, the district court denied Raytheon's motions for a new trial or judgment n.o.v., stating that the jury's verdict, as represented by its answers to the special interrogatories, was supported by the evidence (App. 32a).

On July 31, 1984, the district court entered an amended final judgment which awarded damages of $3,180 to CVD;

awarded a reasonable attorney's fee and costs to the respondents; dismissed Raytheon's counterclaim; and declared the licensing agreement to be invalid and unenforceable (App. 37a-38a). (The date "7/13/84" at App. 38a is in error, and should be "7/31/84".)

B. *Proceedings in the Court of Appeals.*

Raytheon filed a timely notice of appeal to the United States Court of Appeals for the First Circuit (P 0009, 0244).

On July 30, 1985, the court of appeals issued its opinion, written for the court by Chief Judge Re of the United States Court of International Trade, sitting by designation, affirming the judgment of the district court in all respects (App. 1a-30a). The opinion included a thorough review and analysis of the evidence at trial (App. 3a-5a, 13a-18a, 20a), approved the ruling of the district court (Tr. 3376) which had required the respondents to show by "clear and convincing evidence" that Raytheon had asserted its claims of trade secrets with knowledge that no trade secrets existed (App. 10a), and held that the evidence was sufficient to support the jury finding that the respondents had proved this by clear and convincing evidence (App. 3a, 13a, 17a, 30a).

Raytheon's petition for rehearing was denied (App. 39a). A petition for rehearing filed by the present respondents was granted, and the opinion of the court of appeals was amended to allow costs and a reasonable attorney's fee for services on appeal (App. 40a).

C. *Statement of the Facts.*

The "Statement of Facts" set forth in the petition (Pet. 4-10) provides an account of only the evidence most favorable to the petitioner, omitting reference to most of the evidence which supports the verdict of the jury.

The evidence which supports the verdict of the jury is thoroughly reviewed in the opinion of the court of appeals (App. 3a-5a, 13a-18a, 20a). A summary of significant aspects of that evidence is set forth below.

Raytheon is a diversified industrial company, engaged in the manufacture of commercial and military electronics products, home appliances, and military weapons (Tr. 0005, 0007-0008, 0936). At the end of 1979 it had about 50,000 employees (Tr. 0318).

Chemical vapor deposition ("cvd") is a well-known industrial process in which gases or vapors are brought into a furnace where they undergo chemical reaction to form a solid material (Tr. 0198, 0203, 0273-0274, 1070, 1130, 1235, 3169-3170).

During the years 1970 to 1979 Raytheon had about 18 or 19 government contracts to do research and development work on the production of ZnS and ZnSe by cvd processes (Tr. 0174, 0193). Most of the contracts were with agencies of the U.S. Air Force. The government paid more than $10 million to Raytheon for this work (Tr. 1844). (The statement in the petition that the government at no time paid for any of this work, Pet. 5, is directly contrary to the evidence at trial.)

ZnS produced by cvd is used to make windows for infrared detecting equipment used in high-speed aircraft and missiles (Tr. 0397, 0401, 2283, 2314) and is the only known material which is suitable for that use (Tr. 0402-0403, 0995-0996, 2283, 2314).

ZnSe produced by cvd is used to make windows for certain types of high-energy lasers (Tr. 0415, 2282, 2285, 2310) and is the only known material acceptable for that use (Tr. 0095, 0422-0423, 0425, 2269, 2282, 2310).

Before CVD started in business, Raytheon was the only company which produced ZnS by cvd (Tr. 0396) and produced substantially all of the ZnSe made by cvd (Tr. 0426-0427, 0541).

Under the government R&D contracts, Raytheon was required to make detailed monthly, quarterly and final reports on the work done under the contracts (Tr. 0033, 1569-1570, 1844-1845, 3132). Copies of the reports were distributed to commercial companies which had an interest in the work (Tr. 3132), and by the end of 1979 all of the information contained in the reports was available to the general public (Tr. 0096-0097, 0252-0255, 0260-0261, 0965, 2741, 2915). The information contained in the reports was extremely detailed (E 0120-0132) and was sufficient to enable a competent engineer to design a complete cvd system of the type used by Raytheon (Tr. 1084).

Further public disclosures of the cvd work done at Raytheon were made available to the public through published articles written by Raytheon employees (E 0147, 0157), a motion picture film produced by Raytheon (Tr. 0299, 1782), and lectures and speeches given by Raytheon employees (Tr. 0293-0294).

Raytheon maintained an elaborate computerized system for identifying technical information which was designated to be retained as "trade secrets" (Tr. 0075-0076), and none of the information relating to production of ZnS or ZnSe by cvd ever was so designated for trade secret protection (Tr. 0060, 0081-0082).

Raytheon also had a written policy that any engineering drawings containing confidential information should be marked with a specific restrictive legend (Tr. 0030, 0032, 1857-1858, 3152). By the end of 1979 Raytheon had about 2,000 engineering drawings relating to the equipment used to make ZnS and ZnSe by cvd (Tr. 0139, 0319, 2559, 2843-2844), and none of these drawings ever had been marked with any sort of restrictive legend (Tr. 0219, 1033, 2573, 2849).

Raytheon had thousands of documents relating to the production of ZnS and ZnSe by cvd, but at trial was unable to produce

even one document which indicated that any of the relevant information was to be treated as secret or confidential (Tr. 2845-2850).

In short, there was overwhelming evidence, most of which came from the testimony of Raytheon management employees and Raytheon's own documents, to show that none of the information relating to production of ZnS and ZnSe by cvd ever had been treated as secret in any way, and that there had been widespread public dissemination of the information.

Donadio and Connolly were Raytheon employees who had worked on the production of ZnS and ZnSe and had participated in the government contract R&D work described above (Tr. 0236, 0244, 1029-1032). In October, 1979, they informed their supervisor at Raytheon that they were considering leaving Raytheon to start a new company to make ZnS and ZnSe by cvd (Tr. 0328-0329, 2830-2831).

Raytheon immediately threatened to sue them and their new company for misappropriation of "trade secrets" if they went into business without a license from Raytheon (Tr. 0089, 0092-0093, 0331-0332, 1044, 1812-1813, 1849, 2834). They protested that there were no trade secrets, that all of the Raytheon work on cvd of ZnS and ZnSe had been paid for by the government, and that all of the relevant technology had been published in the government reports (Tr. 0331, 1044, 1812, 1849, 1852), but Raytheon persisted in its demands for a license agreement. After Raytheon told them that they now would have to find other employment, whether or not they went into business for themselves (Tr. 0347-0348, 1092, 2832), they organized the respondent CVD on January 11, 1981 (Tr. 0363).

Donadio and Connolly retained a lawyer named Jerry Cohen to represent them and CVD (Tr. 0344-0345, 1619). Cohen asked Raytheon's lawyer for a list of the alleged trade secrets, and Raytheon refused to provide him with one (Tr. 1826). Ray-

theon's lawyer mentioned a few items which Raytheon claimed to be trade secrets, but Cohen showed him that all of these items had been published in the government reports (Tr. 0346, 1050-1051).

Raytheon insisted that it would sue Donadio, Connolly, and CVD for misappropriation of trade secrets unless they signed a license agreement under which CVD would be required to pay royalties to Raytheon on all sales of ZnS and ZnSe for a period of ten years, whether or not CVD ever used any trade secret of Raytheon to produce the materials (Tr. 1820, 1875-1876, 1906-1907).

Faced with the threat of litigation which would have been fatal to the new company, even though the trade secret claims were completely baseless, the respondents signed the license agreement ("voluntarily" according to the petitioner, Pet. 4, 7, 11, 31) on February 15, 1980 because they had no alternative (Tr. 0331-0332, 0357-0358, 1052).

In March of 1980 CVD started in business with four employees: Donadio, his wife and son, and Connolly (Tr. 0379-0383). It began making cvd materials in June of 1980 (Tr. 0379). CVD quickly found that it could not survive if it had to pay the royalties (Tr. 0369-0370, 0948-0949). At trial Raytheon presented evidence that CVD would have been required to pay more than $1.5 million in royalties during its first five years of operations if it had complied with the provisions of the licensing agreement (E 0684-0685), which called for payments of 15 percent of all sales of ZnSe and 8 percent of all sales of ZnS (E 0269).

CVD attempted without success to renegotiate the terms of the licensing agreement (Tr. 0469-0471), and then commenced this action on August 28, 1981 (P 0002). On October 19, 1981, Raytheon terminated the license agreement because CVD had not paid the royalties (Tr. 0161, 0472, 0887).

Reasons for Denying the Writ.

The decision of the court of appeals does not conflict with any decision of this Court, or with any decision of another court of appeals, or with any decision of a state court of last resort.

The issues presented by Questions I, II, and III of the petition were not argued to the court of appeals or decided by the court of appeals. The issue presented by Question IV was not decided adversely to the petitioner. The issue presented by Question V was decided in accordance with prior decisions of this Court.

This is not an exceptional case in which issues not decided by the court of appeals should be considered by this Court. The facts of this case are unusual, so that review of the case by this Court would not provide useful guidance to courts to aid in their disposition of other cases.

I. Questions Presented by the Petition Were Not Presented to the Court of Appeals.

The established practice of this Court is to decline to consider questions which were not argued to the court below or decided by the court below, except in exceptional circumstances. *See, e.g., Miree* v. *DeKalb County, Georgia*, 433 U.S. 25, 34 (1977); *Adickes* v. *S.H. Kress & Co.*, 398 U.S. 144, 147 n.2 (1970); *Lawn* v. *United States*, 355 U.S. 339, 362 n.16 (1958); *Old Jordan Mining and Milling Co.* v. *Societe Anonyme des Mines*, 164 U.S. 261, 264-265 (1896).

This is a sound practice, because this Court should not be burdened with issues which the parties deemed of insufficient importance to raise in the court below and which are presented to this Court as an afterthought.

Three of the five questions presented by the petition were not argued by the petitioner in its briefs filed in the court of appeals, and another was mentioned only in a footnote in its reply brief. (The respondents have requested that the briefs filed in the court of appeals be certified and transmitted to this Court in accordance with Rule 19.1.)

Questions I and II suggest that the decision below conflicts with the *Noerr-Pennington* doctrine.[2] This issue was not argued to the court of appeals, but was noted in the opinion below (App. 10a).

Question III asserts that the court of appeals erred in failing to make an "independent" review of the record, of the type required on the issue of actual malice in libel cases. This issue is raised for the first time by the petition.

Question IV suggests that the *Walker Process*[3] doctrine should not be applied to a case involving trade secrets. The petitioner suggested in a footnote in its reply brief filed in the court of appeals (Raytheon's Reply Brief, page 19, n.19) that cases involving fraud in obtaining a patent are distinguishable from the present case ("obviously present a different situation"). The court of appeals agreed with that proposition (App. 7a, 8a), but noted that the patent cases provide some analogy (App. 7a). The petitioner did not argue to the contrary in the court of appeals.

Question V presents the issue of whether an employee can enter into a trade secret license agreement with his former employer and later assert that the license agreement violates the provisions of Section 1 of the Sherman Act. This issue was argued to the court of appeals, which decided that execu-

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[2] *Eastern Railroad Presidents Conference* v. *Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers* v. *Pennington*, 381 U.S. 657 (1965).

[3] *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965).

tion of such an agreement did not preclude an antitrust action based upon it, following the decision of this Court in *Perma Life Mufflers, Inc.* v. *International Parts Corp.*, 392 U.S. 134 (1968), and noting that the present case presented an even "more sharply drawn example of overreaching" (App. 21a).

Question V of the petition is the only question which was argued by the petitioner in the court of appeals and was decided adversely to the petitioner. As will be shown below, at pages 15-16, the decision of the court of appeals on this issue was entirely consistent with prior decisions of this Court.

II. The Decision of the Court of Appeals Does Not Conflict with any Decision of this Court.

The decision of the court of appeals does not conflict with any decision of this Court and is consistent with prior decisions of this Court in all respects.

A. *There Is No Conflict with* Bose *v.* Consumers Union.

The petitioner contends that the court of appeals failed to comply with the requirements of the *de novo* review doctrine of *Bose Corporation* v. *Consumers Union of U.S., Inc.*, 466 U.S. 485, 80 L.Ed.2d 502 (1984). This issue is raised for the first time by the petition, and was not argued to the court of appeals.

In *Bose* this Court held that in a libel case in which "actual malice" of the defendant is in issue, an appellate court should make an "independent" or *de novo* review of the record to determine whether actual malice is established by clear and convincing proof. 80 L.Ed. at 2d at 523. The requirement of "independent" review was specifically limited to the issue of actual malice. 80 L.Ed.2d at 526 n.31.

While it is at least highly doubtful that the principles of *Bose* should be applied to an antitrust case, there is no occasion to decide that question here. The court of appeals made an extremely thorough review of the evidence in the record (as evidenced by its opinion, App. 3a-5a, 13a-18a, 20a) to determine whether there was clear and convincing evidence to support the finding of the jury (P 0140) that Raytheon had asserted claims of trade secrets, knowing that it had no such trade secrets.

The court of appeals decided that the respondents properly were required ". . . to prove, in addition to the other elements of an antitrust violation, by clear and convincing evidence, that the defendant asserted trade secrets with the knowledge that no trade secrets existed." (App. 10a.)

The jury found that the respondents had proved this by clear and convincing evidence (P 0140).

After an extraordinarily thorough review of the record, the court of appeals concluded that "Our review of the record leads us to conclude that there was sufficient evidence to support the jury's findings of fact." (App. 30a.) Thus, the court of appeals concluded that there *was* clear and convincing evidence that Raytheon had asserted claims of trade secrets with the knowledge that no such trade secrets existed.

Obviously the fact that there was some evidence to support the contentions of the petitioner (Pet 25-26) could not preclude the jury from finding that the overwhelming evidence to the contrary, described at pages 6-9 above, was "clear and convincing".

The petitioner's argument that the court of appeals "refused to make an independent review" (Pet. 24) is squarely disproved by the opinion below.

B. *There Is No Conflict with Bill Johnson's Restaurants.*

The petitioner suggests a need for "some objective recognized standard or rule of law" to determine when litigation or threatened litigation is baseless (Pet. 21), asserts that the court of appeals "neglected to prescribe any basis whatsoever for an objective determination of baseless conduct" (Pet. 22), and suggests that the appropriate standard is to be found in *Bill Johnson's Restaurants, Inc.* v. *National Labor Relations Board*, 461 U.S. 731 (1983) (Pet. 21).

This issue was not raised in the court of appeals, but in fact the court of appeals did prescribe a specific standard which is entirely consistent with the decision in *Bill Johnson's Restaurants*.

The standard is a strict one. The plaintiff is required to prove "by clear and convincing evidence, that the defendant asserted trade secrets with the knowledge that no trade secrets existed" (App. 10a). It is difficult to imagine a standard which could be more favorable to a defendant who has asserted baseless trade secrets claims against a potential new competitor in an attempt to restrain trade and monopolize.

In *Bill Johnson's Restaurants* the Court indicated that a suit allegedly brought in retaliation against an employee would not be a "sham", and therefore should not be enjoined, if it "raises genuine issues of material fact." 461 U.S. at 746.

In the present case the jury in effect found that any trade secrets case which might have been brought against the respondents by Raytheon would not have presented any "genuine issues of material fact", because the evidence was clear and convincing that Raytheon had no trade secrets and knew that it had no trade secrets.

The standard of proof imposed by the district court and approved by the court of appeals (App. 10a) was entirely consistent with the standard of *Bill Johnson's Restaurants*. The

jury was required to determine whether Raytheon's claims of trade secrets presented any *genuine* issue of material fact, and found that they did not. The requirement that this be proved by clear and convincing evidence resulted in a standard of proof even stricter than that of the case on which the petitioner relies.

C. *The Decision Below Is Consistent with Decisions of this Court in Analogous Cases.*

Question V of the petition is the only question which was argued to the court of appeals and decided adversely to the petitioner.

The question is rather awkwardly phrased, but essentially is whether a party can enter into a licensing agreement and later contend that agreement violates Section 1 of the Sherman Act.

The answer clearly is "yes". The law is settled that a party to an agreement may obtain relief under Section 1 of the Sherman Act if the agreement imposes an unreasonable restraint on trade, because the provisions of the antitrust laws override any conflicting rules of private contract law.

Perma Life Mufflers, Inc. v. *International Parts Corp.*, 392 U.S. 134, 140, 142 (1968) (dealer franchising agreement); *Simpson* v. *Union Oil Co.*, 377 U.S. 13, 18 (1964) (consignment agreement); *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173, 177 (1942) (patent license).

In *Sola* the Court said:

> Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in

> the public interest precludes the enforcement of such unlawful agreements.

317 U.S. at 177.

III. The Decision of the Court of Appeals Does Not Conflict with any Decision of another Court of Appeals.

The decision of the court of appeals in this case is entirely consistent with the decisions of other courts of appeal in comparable cases.

A. & E. Plastik Pak Co., Inc. v. *Monsanto Co.*, 396 F.2d 710 (9th Cir. 1968), involved a similar factual situation. After a Monsanto patent on a particular type of plastic sheet had expired, A. & E. hired a Monsanto employee who was familiar with the technology used to make the sheet. Monsanto threatened to sue for misappropriation of trade secrets, and A. & E. agreed to take a license to use the technology, in order to avoid litigation. The license required the payment of royalties for ten years. A. & E. later commenced an antitrust action against Monsanto, alleging that Monsanto had asserted its claims of trade secrets in bad faith, knowing that the technology was not secret, for the purpose of eliminating competition and attempting to monopolize. The court of appeals ruled that if there were no trade secrets, there was no legitimate basis for the restraints on competition imposed by the license agreement, and that A. & E. had asserted a proper claim under the antitrust laws. 396 F.2d at 716.

Antitrust cases based upon the assertion of patent infringement claims where the patent owner knows the patent to be invalid also are consistent in principle with the decision below.

See, e.g., Kearney & Trecker Corp. v. *Cincinnati Milacron Inc.*, 562 F.2d 365, 374 (6th Cir. 1977); *Handgards, Inc.* v. *Ethicon, Inc.*, 601 F.2d 986, 996 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980) ("clear and convincing evidence" required) and 743 F.2d 1282, 1294 (9th Cir. 1984), *cert. denied* ___ U.S. ___ (1985) (evidence warranted jury verdict for plaintiff).

IV. This Is Not an Appropriate Case in which to Define the Scope of the "Sham Exception" to the *Noerr-Pennington* Doctrine.

In *Eastern Railroad Presidents Conference* v. *Noerr Motor Freight, Inc.*, 365 U.S. 127, 144 (1961), the Court noted that conduct of a defendant which ostensibly was directed toward influencing government action would not be exempt from the antitrust laws if the conduct was a "mere sham"; and in *California Motor Transport Co.* v. *Trucking Unlimited*, 404 U.S. 508, 513 (1972), the Court observed that "a pattern of baseless repetitive claims" might fall within the "sham exception" to the *Noerr-Pennington* doctrine.

The petition points out that some of the courts of appeal have expressed differing views as to whether a single baseless suit can fall within the "sham exception" (Pet. 14-19), and suggests that the issue should be resolved by review of the present case.

The Court has declined to review a number of cases in which the issue could have been considered (Pet. 19), and this is not an appropriate case in which to consider the issue, for the reasons stated below.

A. *The Issue Was Not Argued to the Court of Appeals and Was Not Decided by the Court of Appeals.*

The briefs filed in the court of appeals did not argue the issue, and although the court of appeals mentioned the *Noerr-Pennington* doctrine in its opinion (App. 10a), it did not purport to decide whether a single baseless suit would be within the "sham exception".

The decision of the court of appeals is concisely summarized in the concluding section of its opinion (App. 30a):

> The exaction of a licensing agreement through the bad faith assertion of trade secrets by a party in a far superior bargaining position with the intention of restraining competition and monopolizing the market is a violation of the antitrust laws.

B. *There Was No Suit by the Petitioner.*

Since Raytheon did not commence any trade secret litigation against the respondents, one can only speculate as to what Raytheon would have done if the respondents had refused to sign the licensing agreement. Raytheon might have commenced a single baseless suit against one or more of the respondents, or it might have commenced multiple baseless suits against each of the respondents and against their suppliers and customers, or it might even have commenced no suit at all. This Court should not attempt to define the scope of the "sham exception" on the basis of hypothetical and conjectural factual situations.

C. *The Licensing Agreement Was an Unreasonable Restraint of Trade.*

The licensing agreement required CVD to pay massive royalties to Raytheon (estimated by Raytheon at $1.5 million dollars for the first five years of operations of CVD) (E 0684-0685) for a license to use non-existent trade secrets. The royalty rates were set at such high levels by Raytheon that CVD could not pay the royalties and survive as a competitor of Raytheon (Tr. 0369-0370, 0948-0949).

Section 1 of the Sherman Act, 15 U.S.C. 1 (Pet. 3), provides that "Every *contract* . . . in restraint of trade or commerce among the several States . . . is declared to be illegal."

The licensing agreement was a contract which unreasonably restrained trade, without regard to the overreaching conduct of the petitioner which enabled it to exact the agreement from the respondents.

D. *The Licensing Agreement Would Have Been Invalid and Unenforceable Even if It Did Not Violate the Antitrust Laws.*

While the imposition of the licensing agreement upon the respondents was found to violate the antitrust laws, it is clear as a matter of law that the licensing agreement would have been invalid and unenforceable even if there had been no violation of the antitrust laws.

The licensing agreement purported to grant a license to use "trade secrets" which the jury found did not exist (P 0140). Accordingly, as the court of appeals noted, "there was no valid consideration for CVD's promise to pay royalties" (App. 24a).

Where there is a total failure of consideration, under applicable Massachusetts law such an agreement cannot be enforced by the licensor. *Frequency Electronics, Inc.* v. *National Radio*

Co., Inc., 422 F.Supp. 609, 611, 613 (S.D.N.Y. 1975), *affirmed*, 546 F.2d 497 (2d Cir. 1976) (note given in payment for invalid patent cancelled, applying Massachusetts law); *Harlow* v. *Putnam*, 124 Mass. 553, 556 (1878) (licènse under a void patent; no consideration for promise by licensee).

V. The Facts of this Case Are So Unusual that Review of this Case Would Not Provide Useful Guidance to other Courts.

Review of the court of appeals decision by this Court would be unlikely to provide useful guidance for the benefit of federal or state courts in other cases.

The principles of law applied by the district court and the court of appeals are well established, and the factual situation presented by this case is unlikely to recur with any frequency.

The case is unusual, and perhaps unique, in that it arises from a licensing agreement (E 0256) which purported to grant a license to use "trade secrets" but did not specify or define the "trade secrets" which were the subject of the license (E 0257).

During the discussions leading up to execution of the licensing agreement, Raytheon refused to provide the respondents with any comprehensive list of the alleged trade secrets (Tr. 1826). The few items which its attorney did mention as possible trade secrets were shown to have been published in the government reports (Tr. 0346, 1050-1051).

Any potential licensor of trade secrets should be willing to specify what it is licensing — if in fact it has anything to license. Raytheon's refusal to specify the alleged trade secrets underlying its threats of litigation was an extraordinary course of conduct, and one which is not likely to be encountered in other cases. Its refusal to specify the alleged trade secrets was a

clear indicator of the fraudulent intent of its representatives and of what the courts of appeal aptly characterized as a "sharply drawn example of overreaching" (App. 231a).

Conclusion.

For the reasons stated above, the petition should be denied.

Respectfully submitted,

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